

TRANSCRIPT

FEDERAL OPEN MARKET COMMITTEE CONFERENCE CALL

May 6, 1981

Prefatory Note

This transcript has been produced from the original raw transcript in the FOMC Secretariat's files. The Secretariat has lightly edited the original to facilitate the reader's understanding. Where one or more words were missed or garbled in the transcription, the notation "unintelligible" has been inserted. In some instances, words have been added in brackets to complete a speaker's thought or to correct an obvious transcription error or misstatement.

Errors undoubtedly remain. The raw transcript was not fully edited for accuracy at the time it was produced because it was intended only as an aid to the Secretariat in preparing the record of the Committee's policy actions. The edited transcript has not been reviewed by present or past members of the Committee.

Aside from the editing to facilitate the reader's understanding, the only deletions involve a very small amount of confidential information regarding foreign central banks, businesses, and persons that are identified or identifiable. Deleted passages are indicated by gaps in the text. All information deleted in this manner is exempt from disclosure under applicable provisions of the Freedom of Information Act.

Meeting of the Federal Open Market Committee

May 6, 1981

A meeting of the Federal Open Market Committee was held on Wednesday, May 6, 1981, at 2:30 p.m., at the call of Chairman Volcker. This was a telephone conference meeting, and each individual was in Washington, D. C., except as otherwise indicated in parentheses in the following list of those participating.

PRESENT: Mr. Volcker, Chairman
Mr. Solomon, Vice Chairman (New York)
Mr. Boehne (Philadelphia)
Mr. Boykin (Dallas)
Mr. Corrigan
Mr. Gramley
Mr. Rice
Mr. Schultz
Mrs. Teeters

Messrs. Balles (San Francisco), Black (Richmond), Ford
(Atlanta), Timlen (New York), and Winn (Philadelphia),
Alternate Members of the Federal Open Market Committee

Messrs. Guffey (Kansas City), Morris (Boston), and Roos
(St. Louis), Presidents of the Federal Reserve Banks of
Kansas City, Boston, and St. Louis, respectively

Mr. Axilrod, Staff Director
Mr. Bernard, Assistant Secretary
Mrs. Steele, Deputy Assistant Secretary
Mr. Mannion, Assistant General Counsel
Mr. Kichline, Economist

Messrs. Burns (Dallas), Danforth (Minneapolis), Ettin,
Keir, Mullineaux (Philadelphia), Prell, Scheld
(Chicago), Truman, and Zeisel, Associate Economists

Mr. Sternlight (New York), Manager for Domestic Operations,
System Open Market Account

Mr. Pardee (New York), Manager for Foreign Operations,
System Open Market Account

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Mr. Coyne, Assistant to the Board of Governors
Mrs. Deck, Staff Assistant, Open Market Secretariat,
Board of Governors

Mr. Doyle (Chicago), First Vice President, Federal
Reserve Bank of Chicago

Messrs. Balbach (St. Louis), J. Davis (Cleveland),
Eisenmenger (Boston), Fousek (New York), Keran
(San Francisco), Koch (Atlanta), and Parthemos
(Richmond), Senior Vice Presidents, Federal
Reserve Banks of St. Louis, Cleveland, Boston,
New York, San Francisco, Atlanta, and Richmond,
respectively

Mr. Gambs (Kansas City), Assistant Vice President,
Federal Reserve Bank of Kansas City

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CHAIRMAN VOLCKER. [I'm not sure] if you heard me talking to Mr. Kichline about whether he knew anything new about business [activity]. He told me "not much," but I think he ought to tell us what he knows.

MR. KICHLINE. Well, with regard to auto sales for the month of April, sales on our seasonals were at a 5-3/4 million unit annual rate, which is about 2 million units below the rate in March. The only other information we've picked up relates to some very early information on worker hours in manufacturing for the month of April, and that seems to have risen a bit. We would infer from that and from information we know on auto production and some other physical product data that industrial production probably will be rising 1/4 to 1/2 percent or something like that for the month of April.

CHAIRMAN VOLCKER. I don't know whether anybody else has any comments on the business situation at present. Nobody has any strong sense of conviction out there?

SPEAKER(?). No is right.

CHAIRMAN VOLCKER. We will turn to Mr. Axilrod.

MR. AXILROD. Mr. Chairman, we have some very tentative new numbers on the aggregates. They have the normal tentativeness for a Wednesday; they will change by tomorrow and perhaps a little more by Friday. The preliminary data for the week of April 29th had suggested a decline of \$1 billion from the week of the 22nd. The more complete data, which might be somewhat firm--that's the week we're going to publish on Friday--now suggest a decline of about \$3-1/2 billion from the week of the 22nd. That would be followed, I hasten to add, by an increase, if the numbers hold up, of about \$3 billion in the week of May 6th. This looks offsetting, but in a real sense the level of the series for both the 29th and the 6th is lower than had been built into the paths. So, the level of the series is lower on average by about \$2 billion in both weeks, April 29th and May 6th. The changes are, as I mentioned above, about offsetting. This figure would give us a shift-adjusted April rate of growth--I can't be very precise--probably on the order of 14 percent or something like that. And that would put the April level of M-1B almost right smack in the middle of the Committee's 3-1/2 to 6 percent long-run shift-adjusted range. That, of course, is somewhat higher than the Committee had been aiming at by April, but it's still well within the range.

I don't have any new data for M2 yet for April, but the data we had as of Friday would have had the level of M2 in the month somewhat above the Committee's long-run growth range, viewed as a triangle. M3 in April is also somewhat above the range. And bank credit growth, which is [uncertain] because we don't have good estimates yet for April, by March had been moving down toward the range. I don't believe that the growth in April will be very far from, and probably will be lower than, the 9 percent upper limit of the Committee's range. So, I think by April it's possible that bank credit will be at or near the upper end of its range. We have been running with a reserve path that would imply in the current week

borrowing of around \$2 billion. Borrowing started out very high earlier, before the weekend, and it has been running about \$1-1/2 billion since then, as banks have had large excess reserves that they've been working down. In consequence of this, as you know, within the week there was some easing; we've had a drop in the funds rate from the very high levels it had reached earlier. It, too, has been easing down as banks have adjusted their positions within the week. But, Mr. Chairman, perhaps Mr. Sternlight would want to comment on the particular developments in market rates that have followed the discount rate move.

CHAIRMAN VOLCKER. Mr. Sternlight.

MR. STERNLIGHT. Mr. Chairman, as the Committee members know, the markets reacted to the discount rate move with fairly sharp rate increases. Rates had already been moving up in the wake of the very tight conclusion to the previous reserve week, the week ending the 29th, and then when the money supply number was published Friday, there was a further upward rate move. And after the discount rate action on Monday there were still further increases, leaving the market in a very demoralized state, I'd say, early yesterday morning. From that point, things seemed to gel better; sentiment turned around to some extent. But there has been a lot of worry about whether the Treasury would get any kind of decent bidding for its three-year auction. It turned out to be very substantial bidding at the rates that developed as that auction went on. The [auction average] rate was a record high, 15.8 percent. But earlier that day the market was talking about 16 percent or higher. Today the atmosphere continues to improve. The 10-year auction has been held, with offering rates of around 14.55 or 14.60 percent, again fairly good. And market rates have come down from the peaks they hit yesterday morning: The 3-month rate, which had touched 17 percent, is down to about the 15-1/2 percent area; the CD rate had touched 19 percent for the 3-month issue and now it's around 18-1/2 percent. As Steve mentioned, we had a high funds rate at the beginning of this week, which I think was probably more a function of an extremely tight ending of the April 29th week than of our own effort to control reserve restraint on the system. The funds rate had been averaging 20 percent on Thursday and Friday and then it worked its way down, partly with the help of substantial borrowing over the weekend. The funds rate today started out around 17-1/2 percent and it's around the 17 or 16-1/2 percent area this afternoon. That's all I have.

CHAIRMAN VOLCKER. We've had rather special circumstances in the money market affecting the federal funds rate for some weeks, where the banks either had not borrowed and then came in at the end [of the maintenance week] or had not borrowed and had run reserve deficiencies. This week we've had the opposite pattern of borrowing early in the week in a very tight market and the banks are now being left with excess reserves. Just for the moment, it's a somewhat easier money market. Steve described generally where we are on the aggregates which, to summarize, is on the high side on the broader aggregates--where we've been all along, or for the last couple of months anyway. They are not moving particularly strongly at the moment but they are on the high side. M1 is right in the middle of the long-run path, if you consider that significant, but above where we want it to be at this point. We have reduced the nonborrowed reserve path for other than multiplier reasons in the light of the

higher-than-desired total reserves, leaving us with something in the neighborhood of \$2 billion of borrowings.

I'm not sure that any great decision has to be taken here. In terms of the target, I think we have to recognize that at the moment we're running high, but we meet formally again in a few weeks and we will reassess that target. I'm not sure that there's any need to put down another target formally for the next two weeks. We recognize that we are high; we recognize that in our operations. We do have a federal funds checkpoint, or whatever, which is 13 to 18 percent. It has generally been fluctuating above that in recent days. And, today, I think we have to recognize that somehow or another. But I would suggest that we don't have to take any decisions on money supply targets per se. We would recognize that we are running high and describe the situation--I'm just thinking now in terms of what we might say in the brief paragraphs we write [in the policy record] about a telephone consultation--and recognize that we've made some adjustments in the reserve path. And there we are. There is always the question of the precise reserve path and where we are, if anybody wants to comment on that. I'm not sure I see anything in these most recent money supply figures that suggests any big change in that. We can certainly maintain that kind of borrowing level regardless of the fact that these last estimates are a shade lower than our previous estimates.

MR. BOEHNE. This is Ed Boehne. I have a question. Steve, what is your best guess on money growth in May?

CHAIRMAN VOLCKER. If I may interject before Steve answers: It's not worth a damn. But he can answer the question.

MR. AXILROD. I was going to say it's very much a guess, but we see, of course, a diminution from April. If I had to put a range around our guess, I would say the rate of growth for May is probably in a range of 6 to 9 percent [for M-1B]. Something on that order of magnitude would still leave us with a pretty high growth rate in M-1B for the [second] quarter on average. If we had growth a lot higher than that, we'd begin to get zero velocities instead of a small positive coming out of that.

MR. ROOS. Steve, Larry Roos. What do you anticipate total reserves to be next week at the end of the week?

MR. AXILROD. Next week?

MR. ROOS. I mean this week.

MR. AXILROD. One second, Larry, and I'll tell you. I don't know whether you really want the total reserve figure for the current week, but for the three weeks ending May 20th--that's the week just past, the current week, and next week--it looks as if total reserves might be around \$40,960 million. I can give you the weekly figures. The path for total reserves is a little over \$40,400 million. That is, for this period of three weeks, actual total reserves appear to be running about \$500 million above what the path for total reserves would call for. And in each week of that period, it's not too different from that.

CHAIRMAN VOLCKER. But below the previous three-week period?

MR. AXILROD. Well, I'm looking at unadjusted figures, but that would be higher than the preceding four-week period.

CHAIRMAN VOLCKER. I didn't write down what you said, but I thought you just gave a figure that was lower.

MR. AXILROD. No, the path is running lower than the total reserves demanded. The actual total reserves appear to be running about \$500 million or more above the path for total reserves.

CHAIRMAN VOLCKER. They are above the path. But what figure did you give for the three or four weeks just ending?

MR. AXILROD. Well, for the three weeks ending May 20th, I gave a figure of \$40,960 million. For the preceding four weeks, the average level of total reserves was \$40,027 million.

CHAIRMAN VOLCKER. Yes, but you gave the projected level of total reserves for the next three weeks.

MR. AXILROD. The projected level is \$40,960 million.

CHAIRMAN VOLCKER. That's for the period just ending, I thought you said.

MR. AXILROD. No, for the period we're in--the three weeks ending May 20th.

CHAIRMAN VOLCKER. Oh, May 20th. Okay.

MR. AXILROD. The April growth in total reserves will turn out to be quite low, with the way the lagged reserve accounting comes out and the sharp drop in excess reserves at banks, which will hold down the growth of total reserves. The monetary base in April grew at around a 6 percent annual rate.

CHAIRMAN VOLCKER. I don't know whether I'll need this. Any other questions?

MR. MORRIS. Paul, this is Frank Morris. I had assumed that you were going to suggest changing the federal funds range. Is it your judgment that the Manager can live with the federal funds range for the next two weeks?

CHAIRMAN VOLCKER. Well, I was just fooling with some language as to what we might report. I'll tell you what I have written down here. Don't hold me to this word for word, but to capture the sense of it I would say: We held a consultation on May 6. The Committee agreed that in the period between now and the next regularly scheduled meeting on May 18th--that's only two weeks we're talking about--the reserve paths should continue to be set on the basis of the money supply path established at the last meeting. It is recognized that actual money growth may be high for a time relative to that path, in view of the recent performance of the aggregates. In the light of this approach, the Committee recognized that short-term market interest rates might well fluctuate around levels prevailing in

recent days, which by implication says we're not [constrained] by the 18 percent, and the Committee agreed to consult further if the monetary growth rate does not abate.

MS. TEETERS. In other words, we're leaving the range in place but piercing the ceiling as necessary. Is that the idea?

CHAIRMAN VOLCKER. This particular version is written on the assumption that we've had our consultation, related in part to the federal funds rate range, and we say that we anticipate the rate is going to be around recent rates, which carries us into the 18 to 20 percent area by implication. But it just does it by implication.

VICE CHAIRMAN SOLOMON. What is the advantage of doing it that way?

CHAIRMAN VOLCKER. Oh, I just think it avoids controversy about what the new limit is. I don't mean controversy in the Committee particularly, but just that these people who look at what we say with great precision would say that we really were aiming at 20 percent or whatever.

MR. GRAMLEY. Mr. Chairman, Lyle Gramley. I think you have a stronger case for the way you want to do this. We've been trying to argue that these are not ranges that imply a constraint; they are a checkpoint. And what we have done, if we go this route, is that we have demonstrated in effect that this is not a binding range but a checkpoint. By implication, we have consulted with one another and have agreed to let the Manager continue to operate in ways that are based on reserve growth and not on interest rates.

CHAIRMAN VOLCKER. You have expressed my feelings more eloquently than I did, Governor Gramley.

MR. MORRIS. Well, the last time we did this, Paul, it caused a lot of confusion in the street when the record of policy actions came out. A lot of people were very much confused as to just what the devil did happen at our telephone meeting, since the range wasn't changed but at the same time the federal funds rate was 2 percentage points below the lower end of the range. So, it seems to me there would be less cause for confusion if we just changed the range.

CHAIRMAN VOLCKER. Well, I had that in mind with this proposal, Frank. My own conclusion is that the net result of that last [episode] was highly constructive. Now, opinions may change on that, but by doing something a little different I think we may finally get them to look at it in a little different way. This is only meant to reinforce that feeling. I was just a little afraid that if we either use the word "suspend," a slightly awkward word, which is one thing we can say, or if we say [the upper end] is 20 percent, they would go back and say: "Well, it really is a constraint." That's why I tried to avoid it. Something precisely along the lines of Governor Gramley's reasoning is what I had in mind. But it's a psychological point in terms of how people read it. My conclusion was that it would be less confusing doing it this way because I really do think that it was worth the few days' confusion it caused that other time.

MR. ROOS. This is St. Louis. I would agree wholeheartedly with you, Mr. Chairman.

VICE CHAIRMAN SOLOMON. Paul, you said in your language, if I remember correctly, that we expect interest rates to be roughly the same as in recent days. Is that correct?

CHAIRMAN VOLCKER. "To fluctuate around levels prevailing in recent weeks" is what I happen to have written down here.

VICE CHAIRMAN SOLOMON. The recent weeks doesn't mean to me--

CHAIRMAN VOLCKER. "Recent days" [is actually what] I have.

VICE CHAIRMAN SOLOMON. "Recent days," right. So, I guess nobody except us would know that that's 18 to 20 percent. It depends upon how many days one looks at. If we're talking about the last two or three days, then you're right. But if we're talking about five or six days, then that would imply something lower than that.

CHAIRMAN VOLCKER. I don't think so. The problem would be the opposite, if anything. It happens to be lower today. How many days ago did the federal funds rate hit--

MR. AXILROD. Well, going back, on Tuesday, April 28th, which was a little more than a week ago, the effective funds rate was 17 percent; the day before that it was 16 percent. Then on the next day it got to 19 percent, then it was 19, 20, and 18-1/2 percent; and presumably today it will be 17 percent or so.

CHAIRMAN VOLCKER. We can say in the last week or so, if that makes it better.

MR. FORD. Paul, this is Bill Ford in Atlanta. I, too, want to say, if I'm reading you right, that I think this is a move toward trying to put across that we are deemphasizing adjustments in the interest rate or fine-tuning it. That did create some confusion initially, but the message is getting through to so-called Fed watchers not to overinterpret every little tick or movement of the fed funds rate. You might consider tacking on a sentence at the end, in light of the comments we just had on confusion about which days we mean, to underline further the fact that we are continuing to stress keeping the aggregates under control and deemphasizing the importance of these particular trigger points.

CHAIRMAN VOLCKER. I do have a phrase at the end--I think I read it: "And the Committee agreed to consult further if the monetary growth rate does not abate." I just wanted to get some reference in there to monetary growth in terms of the targets. There is nothing magic in these words or the particular formulation. We could say "agreed to consult further if necessary to maintain adequate restraint on the rate of monetary growth" or something like that.

MR. FORD. That would be great. That would make it clearer that we're moving in that direction and not paying a whole lot of attention to the particular point level of the fed funds rate.

MR. BOEHNE. This is Ed Boehne. As long as we're expressing opinions--and I guess reasonable people can differ--I found the last experience thoroughly confusing. And most people who watch the Fed found it thoroughly confusing. I must say that I think the approach that you suggest, Mr. Chairman, is going to add to confusion. So, I've got to go along with Frank Morris. I think we'd be better off to say we're going to have a funds rate ceiling rate of 20 percent or some explicit number. What you've said may have a great deal of meaning to us, but I suspect that there are going to be lots of [different] interpretations in the market. There will be more confusion. So, I would favor being more explicit.

MR. GUFFEY. Paul?

CHAIRMAN VOLCKER. Yes.

MR. GUFFEY. Roger Guffey. I would join Frank Morris and Ed Boehne. I think we've effectively told the market that the fed funds rate is only the point at which the Committee will consult. And anything beyond that, I think the market is discounting. They don't know when we consult. If, as you have suggested, we have essentially done away with any point of consulting, I don't have any problem at this time because we only have ten days before the next meeting.

CHAIRMAN VOLCKER. But I don't think I really have, Roger, if I may just interrupt. This is all filled with subtleties in some sense; pay your money and take your choice. But this says we recognize that market interest rates might well fluctuate around levels prevailing in recent days or in the past week, whatever the wording is. I think, by implication there, if the rate were widely different from that, it would be an excuse for consulting. Then it goes on to say explicitly something about the aggregates. So, I don't think we've lost any sense of consulting here. I don't know that it will be necessary in the next two weeks, but I would read this to mean that if things were drastically different, particularly on the up side, we would consult.

MR. GUFFEY. Maybe the market was a bit confused after they saw the record before. And I guess I'm a bit confused as to why we establish a range if that's true. You've tied this language, as I understand it, to some projected rate of money growth for the period ahead.

CHAIRMAN VOLCKER. What I am saying is that I think it has both in there.

MR. GUFFEY. Well, I'd feel more comfortable saying we had a Committee meeting and reestablished the range at 15 to 20 percent. I think that is consistent with what Frank Morris and Ed Boehne just said.

CHAIRMAN VOLCKER. We can do that. It's a matter of preference. My own judgment, in this particular instance, is that it would be more confusing and not less confusing in one sense. I think we really have the [better] market [understanding now] after some confusion. The confusion is not entirely absent now; it's a question of which way to diminish it. Doing something that sounds quite consistent with what we did last time, I think, will put us ahead of

the game and not behind it. That has no implications to me for what we do with the range at the next Committee meeting. We can obviously discuss that, but I think that's something we can discuss when we're here face-to-face [at the next meeting].

MR. BOYKIN. This is Boykin. Paul, I would support that decision versus actually changing the range.

CHAIRMAN VOLCKER. Just to be clear, what I'm a little afraid of--whatever language I played with for all of three minutes before coming in here--is that if we change the range, the confusion will come down to [why] we set a range for such a short period of time. The market will say: "Well, what the Committee tried to tell us last time really isn't right. They really have a great concern about [the funds rate], particularly if they were worried about it for a two-week period. And they put it right on top of the present market rate; that must mean that what they tried to tell us last time wasn't true." That's what I'm worried about.

MS. TEETERS. This is Nancy Teeters. This is much more specific than the February 24th language. In that we simply agreed to accept some shortfalls [in the growth of M-1A and M-1B]. In this one we're mentioning both the monetary aggregates and the interest rate range, without specifying what it is. So, I think there's less confusion than there was in the February 24th [directive].

CHAIRMAN VOLCKER. I guess what we're saying is that there is no perfectly nonconfusing way of doing this. The question is: In which direction do we want to go? I just have the gut feeling that language that establishes a new range for such a short period, against what we just did, will create the confusion in the opposite direction.

VICE CHAIRMAN SOLOMON. Paul, what if we insert into your language something that says we recognize that rates are likely to remain at the levels they have been in recent days and that makes inoperative the upper end of the range until the next meeting.

MR. BALLE. Paul, this is John Balles. I think Tony Solomon just made a very good suggestion. Without confusing the market we could say something about raising the range specifically, sort of undoing it. I think I would like a more explicit statement than you read that we are eliminating the upper end of the range until the time of the next meeting. They would understand the federal funds range--

MR. CORRIGAN. This is Jerry Corrigan. I must say I come out at just the opposite way from what John has just said. If you look back prior to February 24th, for almost two years we've been trying to convey the message that the funds rate band is a consultation point. We've also been trying to convey the message that when it has been hit, consultations have been held and in one way or another, explicitly or implicitly, and when the forces have dictated, we effectively have waived it. I think that putting new numbers around it in the context of the current situation works in exactly the opposite direction; it reinforces the view that we're playing footsies with the funds rate. To me the language the Chairman has suggested is clear enough. It does by implication say that something in the area of 20 percent is fine. But by implication it also says that something like 25 percent isn't fine, and if we found the rate moving in that

direction, we'd have another consultation. I think that's what the market, at least as I read it, is looking for. And that's the message that we've been giving them, or trying to give them.

CHAIRMAN VOLCKER. I have no trouble in principle with what Tony and John are suggesting. The trouble is that it's very hard to put it in language that does not say: Right now this doesn't make much difference, but ordinarily we take it very seriously. It's easy to read that into it. That's the only reason I came up with this language, not that I have any disagreement in principle. That's what we're doing; we are suspending [the ceiling]. When we use the word "suspend," given the confusion that has existed, it sounds as if in other cases we would have been very apt not to suspend it. That's my only problem with it.

VICE CHAIRMAN SOLOMON. Right. But then what are you going to do at the next FOMC meeting? Are you assuming that we're going to come up with a range at the next meeting?

CHAIRMAN VOLCKER. I am, but we can obviously discuss it.

VICE CHAIRMAN SOLOMON. Well, if we're going down this road, it seems to me that an argument can also be made not to come up with a range at the next meeting.

CHAIRMAN VOLCKER. Well, one can argue that.

MR. SCHULTZ. This is Fred Schultz. I might want to argue that. It seems to me that we do need to deemphasize this funds rate range. It appears to be giving us an awful lot of difficulty. It has added to the confusion in the market. Events are such that we do have the opportunity to continue that deemphasis. I think we should go ahead and take the opportunity, and I would hope that at the next FOMC meeting we could have a very thorough discussion about exactly what we want to do with that funds rate range.

MR. RICE. I like the language as it is.

CHAIRMAN VOLCKER. I do not consider that question at all prejudiced by this language. That's not the object at all for me personally.

VICE CHAIRMAN SOLOMON. Paul, I don't have any trouble with the substance, but I find the wording a little elliptical to my literal mind. If, in effect, we are making inoperative the upper end of the range between now and the next FOMC meeting, I'm not sure that this language carries the implication that at other times we would want it to be operative. If you're that insistent about not wanting to project that emphasis on the fed funds rate, it does prejudice--and maybe rightfully so--the whole question of whether we have a fed funds range in the future or not, because I don't understand why you would have that concern now and you wouldn't have that concern twelve days from now.

CHAIRMAN VOLCKER. I don't have the concern because we consulted. I think it's useful to consult when these things happen. Well, I don't have any problem with your thought, if you can put in

some language that doesn't say the opposite. And that's my problem. I started out where you are. I don't know what that language is.

MR. GRAMLEY. Lyle Gramley again. I was sitting here trying to think of some wording that would be more amenable to the group. Perhaps we could say something like: "Recognizing that market rates may stay near the levels of recent days and that the federal funds rate may be somewhat above the upper end of the range set at the last FOMC meeting..."

CHAIRMAN VOLCKER. That might do it. I was just thinking of something similar: "In light of this approach, the Committee recognized that short-term market interest rates might well fluctuate around levels prevailing in recent days and that the federal funds rate might exceed the range specified..." [I hesitate at] the word "specified;" I guess "specified" is all right.

MR. GRAMLEY. The range "adopted"?

MS. TEETERS. The "upper end of"?

CHAIRMAN VOLCKER. "...the upper end of the range adopted at the last meeting." See, it's when we get into words such as "adopted" or "specified" without saying what the directive does--that this is the point at which we consult--that gets us into a little difficulty.

MR. AXILROD. "The range indicated"?

CHAIRMAN VOLCKER. "The range indicated for consultation at the last meeting." Maybe that's a way to do it.

VICE CHAIRMAN SOLOMON. Yes, I think that language is an improvement. It's a little less enigmatic.

MR. ROOS. Paul, Larry Roos. I think it's almost impossible for nineteen of us to draft a statement. You have a general feeling of support for what you're trying to do and I vote that you just go ahead in your own words.

CHAIRMAN VOLCKER. Well, that is a reasonable comment. We can try to get some words that mention the range. That last formulation didn't sound too bad to me off the top of my head. I don't think it prejudices anybody; it just recognizes that the funds rate is going to be above what we said was the consultation point before, which is a factual report.

MR. BOEHNE. I find the language that you just read to be more acceptable than your original version. If whatever you draft tends to go in that direction, I wouldn't have any trouble.

CHAIRMAN VOLCKER. Well, the basic issue is whether we want to do anything more; I guess that is an important issue. I would propose no substantive new directive. I don't know whether we need to put anything down here except for that point. I would propose that we not change the money supply targets. And, apart from what we say in the language, you understand that we've tightened up on the reserves and we won't, at the moment, do it appreciably further. We would do it further just in the normal course of events if the data come in

adversely. That is the way we intend to operate. If that's understood, we can conclude.

MR. GUFFEY. Paul, Roger Guffey again. About your statement that we've tightened up: It would be the first time, as I recall, that anything would be in the record saying that we actually have reduced our nonborrowed target and that it was done not by the Committee in a formal way.

CHAIRMAN VOLCKER. I don't think anything I've read said that.

MR. GUFFEY. I must have misunderstood.

CHAIRMAN VOLCKER. The paragraph I have in front of me here says: We had a consultation. The Committee agreed that in the brief period between now and the next regularly scheduled meeting the reserve path should continue to be set on the basis of the money supply path established at the last meeting. It doesn't say whether we lowered it, raised it, or moved it sideways.

MR. GUFFEY. Okay. With the comment that you made--

CHAIRMAN VOLCKER. It was recognized that actual money growth might be higher. We have, of course, reduced the nonborrowed path. I'm just saying that it doesn't say in this operative paragraph [that that was] the conclusion of our discussion.

MR. GUFFEY. So the fact that the nonborrowed path for the intermeeting period has been lowered will appear no place in the record, then?

MR. AXILROD. No. Factually, President Guffey, the numbers we have now suggest that nonborrowed reserves in April declined at around a 13-1/2 percent annual rate. But that's just a fact. It wouldn't say in the record what particular mechanical devices got it there, if it went there.

MS. TEETERS. Are you planning to put in a paragraph on the consultation of last week?

CHAIRMAN VOLCKER. I wasn't planning to. We didn't have any operative decision. I guess since we weren't planning to then, we shouldn't plan to now. I don't know what it would say. I'm looking at a paragraph here that Steve has written just as background. It talks about constrained availability of reserves and so forth. This is just something he might put in as background; it doesn't say that the reserve path was reduced. It says that pressures on reserve positions were growing and reserves were constrained. I don't know what precedents we have in the Committee record, but we certainly must have language of that sort.

MR. AXILROD. This would be consistent with that.

CHAIRMAN VOLCKER. There's nothing in here that says we made an explicit decision about the nonborrowed reserve path. Any other comment? In fact, I suppose this paragraph will go out to you for review in the normal course. Don't these consultations--

MR. AXILROD. Yes.

CHAIRMAN VOLCKER. Yes. It will only be a paragraph or so saying where the aggregates are and that banks have come under increasing pressure and so forth. The operative language was what I read you. Okay?

VICE CHAIRMAN SOLOMON. Okay.

CHAIRMAN VOLCKER. I don't know if we have something we have to vote on.

MR. BERNARD. It doesn't seem so.

CHAIRMAN VOLCKER. It's not quite clear to me that we need a vote.

VICE CHAIRMAN SOLOMON. Well, in effect, what we've done--no matter what the language is--is that we've suspended the upper end of the range. Does that require a vote or not?

CHAIRMAN VOLCKER. What did we do last time? We didn't change the range. Did we have a vote? What did we vote on?

VICE CHAIRMAN SOLOMON. I thought Murray Altmann said last time that what we did required that we be recorded.

MR. AXILROD. I think there was a vote, but I can't remember for certain.

MR. GUFFEY. If you're talking about the last telephone meeting, I don't believe there was a vote.

SPEAKER(?). Not the last telephone meeting, the last--

VICE CHAIRMAN SOLOMON. February 24th.

SPEAKER(?). The last time we [went beyond] one end of the [funds rate] range.

MR. AXILROD. Yes, that's right.

CHAIRMAN VOLCKER. Well, we can have a vote. I don't know what the pros and cons are. The operative sentence here is the reserve path: that the money supply path established at the last meeting is unchanged. That's what we would be voting on plus this other language. If you want to vote on that, I think we can vote. What you're voting on is that the money supply path is unchanged and the language indicating that we recognize that short-term interest rates are going to be around their recent levels and that that involves a higher rate than was in the checkpoint provided before.

MR. AXILROD. Might involve.

CHAIRMAN VOLCKER. Might involve. Is that clear?

SPEAKER(?). Yes.

CHAIRMAN VOLCKER. Well, we'll have a vote.

MR. BERNARD.

Chairman Volcker	Yes
Vice Chairman Solomon	Yes
President Boehne	Yes
President Boykin	Yes
Governor Gramley	Yes
Governor Rice	Yes
Governor Schultz	Yes
Governor Teeters	Yes
President Winn	Yes

It's unanimous.

CHAIRMAN VOLCKER. Okay, thank you.

END OF SESSION